Unicorn
Investment Bank

Consolidated Financial Statements

For the year ended 31 December 2008

Contents

Independent Auditors' Report

to the shareholders of
Unicorn Investment Bank B.S.C. (c)

We have audited the accompanying consolidated financial statements of Unicorn Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together "the Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, to operate in accordance with Islamic Shari'ah and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, the Board of Directors is responsible for the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the Memorandum and Articles of Association of the Bank have occurred during the year ended 31 December 2008 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking licence.

Ernst & Young

12 March 2009
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board Report

to the shareholders of
Unicorn Investment Bank B.S.C. (c)

ASSLAMO A'LAIKOM WA RAHMATU ALLAH WA BARAKATUH

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed through the Shari'ah department and under our supervision the principles and the contacts relating to the transactions conducted by Unicorn Investment Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2008. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Group, and to report to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2008 are in compliance with the rules and principles of Islamic Shari'ah.

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.

c) During the year, the Group has realized no earnings from sources prohibited by Shari'ah.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.

Dr. Khalid Mathkoor Al-Mathkoor
Chairman of the Shari'ah Supervisory Board

28th Safar 1430 H
23rd February 2009 G

Consolidated Balance Sheet

At 31 December 2008

(Amounts in United States Dollars thousands)

	Notes	31 December 2008	31 December 2007 (Restated)
ASSETS			
Cash and balances with banks	3	**23,560**	12,637
Due from financial institutions	4	**396,614**	72,480
Due from non-banks		**14,120**	40,833
Investment securities	5	**328,560**	211,393
Investments in associates	6	**24,427**	28,284
Investment properties	7	**38,538**	-
Inventories		**10,695**	10,667
Other assets	9	**43,838**	19,857
Premises and equipment		**6,778**	38,628
Assets held for sale	10	**39,187**	-
Goodwill and intangible assets	11	**52,453**	53,640
TOTAL ASSETS		**978,770**	488,419
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	12	**399,573**	70,371
Due to non-banks	13	**22,874**	28,537
Other liabilities	14	**88,856**	41,188
Liabilities held for sale		**13,556**	-
TOTAL LIABILITIES		**524,859**	140,096
EQUITY			
Share capital	15	**183,740**	174,704
Share premium	16	**71,216**	70,495
Statutory reserve	17	**15,580**	12,153
Fair value reserve		**61,765**	36,777
Foreign currency translation reserve		**(5,606)**	277
Retained earnings		**2,945**	20,027
		329,640	314,433
Proposed dividend	18	**-**	26,206
Total equity attributable to the shareholders of the parent		**329,640**	340,639
Advances for proposed increase in share capital	19	**110,059**	-
Minority interests		**7,901**	7,684
Minority interests held for sale		**6,311**	-
TOTAL EQUITY		**453,911**	348,323
TOTAL LIABILITIES AND EQUITY		**978,770**	488,419

These consolidated financial statements were authorised for issue by the Board of Directors on 12 March 2009 and signed on their behalf by:

Yousef Abdullah Al-Shelash
Chairman

Majid Al Sayed Bader Al-Refai
Managing Director & Chief Executive Officer

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	Notes	31 December 2008	31 December 2007
Investment banking fees	20	**24,778**	93,775
Net (expense)/income from financial institutions	21	**(2,836)**	2,986
Revenue from non-banking activities	22	**99,804**	5,067
Gain on sale of investment securities		**53,697**	11,851
Gain on sale of assets held for sale		**-**	1,335
Fair value gain on investment securities	25	**44,381**	-
Fair value gain on investment properties		**4,167**	-
Dividend income		**1,154**	2,793
Management fees		**3,186**	2,751
Share of (loss)/profit of associates		**(2,010)**	181
Other income		**4,319**	2,146
TOTAL INCOME		**230,640**	122,885
Staff costs	23	**40,951**	53,679
Other operating expenses	24	**22,611**	18,771
Non-banking activity expenses	22	**93,295**	-
TOTAL EXPENSES		**156,857**	72,450
PROFIT BEFORE IMPAIRMENTS AND FAIR VALUE WRITE DOWNS		**73,783**	50,435
Impairments	25	**(6,950)**	-
Fair value write downs on investment securities	25	**(31,822)**	(844)
NET PROFIT		**35,011**	49,591
Attributable to:			
Shareholders of the parent		**34,272**	50,099
Minority interests		**739**	(508)
		35,011	49,591
Earnings per share – US cents	26		
Basic earnings per share		**18.7**	28.3
Diluted earnings per share		**18.6**	28.2

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	Attributable to shareholders of the parent								Advances for proposed increase in share capital	Minority interests	Minority interests held for sale	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed dividend	Total				
Balance at 1 January 2008 (restated)	174,704	70,495	12,153	36,777	277	20,027	26,206	340,639	-	7,684	-	348,323
Cumulative changes in fair value	-	-	-	(6,359)	-	-	-	(6,359)	-	-	-	(6,359)
Transferred to consolidated statement of income on sale	-	-	-	(17,201)	-	-	-	(17,201)	-	-	-	(17,201)
Currency translation differences adjustment	-	-	-	-	(5,883)	-	-	(5,883)	-	(522)	-	(6,405)
Income recognised directly in equity	-	-	-	(23,560)	(5,883)	-	-	(29,443)	-	(522)	-	(29,965)
Net profit	-	-	-	-	-	34,272	-	34,272	-	739	-	35,011
Total income and expenses recognised for the year	-	-	-	(23,560)	(5,883)	34,272	-	4,829	-	217	-	5,046
Dividend paid	-	-	-	-	-	-	(26,206)	(26,206)	-	-	-	(26,206)
Transfer to statutory reserve	-	-	3,427	-	-	(3,427)	-	-	-	-	-	-
Transfer to fair value reserve	-	-	-	48,548	-	(48,548)	-	-	-	-	-	-
Issuance of additional shares	9,036	721	-	-	-	-	-	9,757	-	-	-	9,757
Employees share-based payments	-	-	-	-	-	621	-	621	-	-	-	621
Advances for proposed increase in share capital	-	-	-	-	-	-	-	-	110,059	-	-	110,059
Minority interests held for sale	-	-	-	-	-	-	-	-	-	-	6,311	6,311
Balance at 31 December 2008	183,740	71,216	15,580	61,765	(5,606)	2,945	-	329,640	110,059	7,901	6,311	453,911

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	Attributable to shareholders of the parent									Minority interests	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Equity transaction costs	Proposed dividend	Total		
Balance at 1 January 2007	154,201	69,268	7,143	22,315	-	1,144	-	15,420	269,491	-	269,491
Cumulative changes in fair value	-	-	-	20,604	-	-	-	-	20,604	-	20,604
Transfer to consolidated statement of income on sale	-	-	-	(6,550)	-	-	-	-	(6,550)	-	(6,550)
Premises revaluation	-	-	-	408	-	-	-	-	408	-	408
Currency translation differences adjustment	-	-	-	-	277	-	-	-	277	134	411
Income recognised directly in equity	-	-	-	14,462	277	-	-	-	14,739	134	14,873
Net profit/loss	-	-	-	-	-	50,099	-	-	50,099	(508)	49,591
Total income and expenses for the year	-	-	-	14,462	277	50,099	-	-	64,838	(374)	64,464
Dividend paid	-	-	-	-	-	-	-	(15,420)	(15,420)	-	(15,420)
Transfer to statutory reserve	-	-	5,010	-	-	(5,010)	-	-	-	-	-
Issuance of additional shares	20,503	2,667	-	-	-	-	-	-	23,170	-	23,170
Equity transaction costs incurred	-	-	-	-	-	-	(1,440)	-	(1,440)	-	(1,440)
Transfer of equity transaction costs to share premium	-	(1,440)	-	-	-	-	1,440	-	-	-	-
Proposed dividend	-	-	-	-	-	(26,206)	-	26,206	-	-	-
Minority interests arising on business combination	-	-	-	-	-	-	-	-	-	1,220	1,220
Balance at 31 December 2007	174,704	70,495	12,153	36,777	277	20,027	-	26,206	340,639	846	341,485
Restatement due to business combination (note 8)	-	-	-	-	-	-	-	-	-	6,838	6,838
Balance at 31 December 2007 (restated)	174,704	70,495	12,153	36,777	277	20,027	-	26,206	340,639	7,684	348,323

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

(Amounts in United States Dollars thousands)

	2008	2007 (Restated)
OPERATING ACTIVITES		
Net profit	**35,011**	49,591
Adjustments for:		
Investment banking fees	**(3,440)**	(18,800)
Gain on sale of investment securities	**(53,697)**	(11,851)
Fair value gain on investment securities	**(44,381)**	-
Impairment charges	**6,950**	-
Fair value write downs on investment securities	**31,822**	844
Fair value gain on investment properties	**(4,167)**	-
Gain on sale of assets held for sale	**-**	(1,335)
Share of (loss)/profit of associates	**2,010**	(181)
Share-based payments	**1,643**	4,000
Depreciation and amortisation	**1,793**	819
	(26,456)	23,087
Changes in:		
Due from non-banks	**26,713**	(2,931)
Other assets	**(23,981)**	(13,084)
Inventories	**(28)**	626
Due to financial institutions	**204,202**	70,371
Due to non-banks	**(5,663)**	28,537
Other liabilities	**47,668**	10,443
Proceeds from sale of investment securities	**214,502**	97,625
Proceeds from sale of assets held for sale	**-**	18,771
Purchase of investment securities	**(292,530)**	(140,296)
Purchase of assets held for sale	**(19,320)**	-
Net cash from operating activities	**125,107**	93,149
INVESTING ACTIVITIES		
Purchase of premises and equipment	**(3,651)**	(35,640)
Investment in associates	**(1,325)**	(17,223)
Acquisition of subsidiaries, net of cash acquired	**-**	(63,100)
Net cash used in investing activities	**(4,976)**	(115,963)
FINANCING ACTIVITIES		
Advances for proposed increase in share capital	**110,059**	-
Proceeds from issuance of additional shares	**-**	18,000
Due to financial institutions	**125,000**	-
Dividend paid	**(17,471)**	(15,420)
Net cash from financing activities	**217,588**	2,580
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**337,719**	(20,234)
Foreign currency translation adjustments	**(2,662)**	411
Cash and cash equivalents at the beginning of the year	**85,117**	104,940
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**420,174**	85,117
Cash and cash equivalents comprise:		
Cash and balances with banks	**23,560**	12,637
Due from financial institutions	**396,614**	72,480
	420,174	85,117

The attached explanatory notes 1 to 42 form part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. CORPORATE INFORMATION

Unicorn Investment Bank B.S.C. (c) (the "Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No 12/1978, and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and on 5 May 2004 was granted an Islamic investment banking licence by the Central Bank of Bahrain. In accordance with the new banking regulations of the Central Bank of Bahrain, the Bank was granted a Wholesale Bank (Islamic Principles) Licence on 24 April 2007. The Bank's registered office is at the 2nd and 3rd floors of Building No. 2495, Road No. 2832, Seef District 428, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as the "Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management that meets specific investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers;
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory;
- developing and managing liquidity products and other treasury products and services; and
- electronic manufacturing and supply chain management services (through a private equity investment that is consolidated).

The Group's Shari'ah Supervisory Board consists of seven Islamic scholars who review the Group's compliance with general Shari'ah principles and guidelines. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with these principles.

The number of Group employees as of 31 December 2008 was 491 (restated 2007: 413).

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities and investment properties at fair value. The consolidated financial statements are presented in United States Dollars, this being the functional currency of the Group's operations.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognised directly in the consolidated statement of income in the year of acquisition.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
UIB Capital Inc. The main activities of UIB Capital Inc. are to source investment opportunities in the USA and monitor the performance of the acquired companies on behalf of the Bank and investors.	100%	2004	United States of America
Unicorn International Islamic Bank Malaysia Berhad Unicorn International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. Unicorn International Islamic Bank Malaysia Berhad was granted an investment banking licence in 2007 by the Ministry of Finance of Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.	100%	2004	Malaysia
Unicorn Capital Limited Unicorn Capital Limited was granted a commercial licence by the Dubai Financial Services Authority ("DFSA") in September 2006. Its main activities are to source investment opportunities in the Middle East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. During 2008, Unicorn Capital Limited was granted a category two licence by the DFSA, to deal in investments as principal.	100%	2006	United Arab Emirates
Unicorn Capital Menkul Degerler A.S. The Bank acquired 81.77% of Unicorn Capital Menkul Degerler A.S. in 2007. During 2008, the Bank subscribed for an additional 12 million shares which increased the holding of the Bank to 91.9%. Its main activities are to provide investment consultancy, asset management, underwriting and brokerage services.	91.9%	2007	Turkey

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Subsidiary	Ownership	Year of incorporation/ acquisition	Country of incorporation/ acquisition
Victron Inc.	80%	2007	United States of America

In 2007, the Bank's private equity business acquired 80% of Victron Inc., a company based in California, USA. Victron specialises in providing sophisticated manufacturing process technologies for complex printed circuit boards, other electronic assemblies and complete products for original equipment manufacturers (note 8).

2.2 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investments that are actively traded in organised financial markets, fair value is determined by reference to the quoted market price prevailing on the consolidated balance sheet date.
- For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to similar investments where market observable prices exist, adjusted for any material differences in the characteristics of these investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- Investments in funds, unit trusts, or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost or at a previously revalued amount, less provision for any impairment.

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

Impairment of equity investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Impairment of non financial assets

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include the restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rates used for extrapolation purposes.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted amendments to the following IFRS and IFRIC during the year. Adoption of these amendments did not have any effect on the financial performance or position of the Group.

- IAS 39 — Financial Instruments – Recognition and Measurement
- IFRIC 11 — IFRS 2 - Group and Treasury Share Transaction

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

Foreign currency translation

The consolidated financial statements are presented in United States Dollars which is the Bank's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the consolidated balance sheet date. All differences are taken to 'Other income' or 'Other operating expenses' in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Group companies

As at the reporting date, the assets and liabilities of subsidiaries and associates are translated into the Bank's functional currency at the rate of exchange prevailing at the consolidated balance sheet date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amount of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rates.

Financial instruments – initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash on hand, balances with banks, due from financial institutions, due from non-banks, investment securities and receivables from clients. Financial liabilities consist of due to financial institutions, due to non-banks and other liabilities.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue.

Due from financial institutions

Due from financial institutions comprise commodity murabaha receivables. They are stated net of deferred profits and provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the murabaha (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the murabaha over the agreed period.

Due from non-banks

Due from non-banks includes trade account receivables arising in the ordinary course of business of Victron Inc., one of the companies acquired by the Bank as a private equity investment. Victron uses the allowance method of accounting for bad debts.

Investment securities

Investment securities are initially recognised at fair value, and are classified as either "carried at fair value through statement of income" or "available for sale".

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Investment securities (continued)

Following the initial recognition, investment securities are remeasured using the following policies:

(i) Investments carried at fair value through statement of income

Investments are classified as "carried at fair value through statement of income" if they are designated on the date of acquisition as carried at fair value through statement of income. The Group's venture capital ("VC") investments that fall under IAS 28 are also classified under IAS 39 as "investments carried at fair value through statement of income" by utilising the VC exemption in IAS 28. The Group's investments other than VC that fall under IAS 28 are classified as associates.

Investments classified as "carried at fair value through statement of income" are subsequently remeasured at fair value. The unrealised gains arising from the remeasurement to fair value are included in the statement of income as "fair value gain on investment securities". The unrealised losses arising from the remeasurement to fair value are included in the consolidated statement of income as "fair value write downs on investment securities". The gains are transferred to the fair value reserve in the consolidated statement of changes in equity in accordance with AAOIFI. Upon realisation, the gains are transferred to retained earnings.

(ii) Available for sale investments

Investments are classified as "available for sale" if they are not classified as carried at fair value through statement of income. They mainly include strategic equity instruments and Sukuk.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the consolidated statement of income for the year. The losses arising from impairment of such investments are recognised in the consolidated statement of income and are excluded from the consolidated statement of changes in equity. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Due to financial institutions

This represents funds payable to financial institutions on the principles of murabaha and wakala contracts. The amounts are stated at principal plus accrued cost payable.

Due to non-banks

Due to non-banks are initially recognised at fair value less directly attributable transaction costs, and are subsequently measured at amortised cost.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the right to receive cash flows from the asset has expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial asssets (continued)
When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in equity.

In the case of Sukuk ('Islamic bonds') classified as available for sale, impairment is assessed based on the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset. Profit continues to be accrued at the original effective profit rate on the reduced carrying amount of the asset. If, in a subsequent year, the fair value of a Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated balance sheet when there is a legally enforceable or religious right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

Recognition of income and expense

Income recognition
Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following bases:

Investment banking fees
Investment banking fees represent: (i) advisory and placement fees; (ii) structuring fees; (iii) arrangement and underwriting fees; and (iv) performance fees. The performance fees are recognised upon successful completion of the transaction, while the other fees are recognised when the related services are rendered.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Income from financial institutions

Income from financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the agreed profit.

Revenue from non-banking activities

Revenue from non-banking activities primarily relates to Victron. The revenues derived from services, including turnkey manufacturing services where Victron purchases and schedules the materials required for completed assembly, are recognised when Victron transfers to the buyer the significant risks and rewards of ownership of the goods. The revenues derived from consignment manufacturing services, where the customer supplies the materials for product assembly, are recognised when the services are rendered.

Dividend income

Dividend income is recognised when the Group's right to receive the dividend is established.

Management fees

Management fees represent recurring fees earned by the Group for rendering management and administrative services to funds managed by the Group. Management fees are recognised over the period of the services rendered.

Other income

Other income is recognised when earned.

Expense recognition

Expenses are recognised on the following bases:

Non-banking activity expenses

Non-banking activity expenses are the direct manufacturing and service costs of Victron. These are recognised in the same period as the related sale.

Employees' end of service benefits

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated balance sheet date. Bahraini employees are covered under the General Organisation for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Expense on amounts due to financial institutions

Expense on amounts due to financial institutions are recognised on a time apportioned basis over the period of the contracts based on the principal amounts outstanding and the profit agreed with clients.

Zakah

In accordance with its Articles of Association, the Bank is not required to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable amount.

Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expense (continued)

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises: cash and balances with banks; and amounts due from financial institutions with an original maturity of three months or less.

Investments in associates

The Bank's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the balance sheet at cost plus post acquisition changes in the Bank's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The statement of income reflects the Bank's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Investment properties

Investment properties are investments that earn rental income and/or are expected to benefit from capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

In accordance with AAOIFI, unrealised gains or losses are appropriated to the fair value reserve and are transferred to retained earnings only when realised.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realisable value.

Premises and equipment

Premises and equipment includes computers, office equipment, fixtures and fittings and vehicles. Premises and equipment are recorded at cost less accumulated depreciation.

Assets held for sale

Assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units within the Group that are expected to benefit from the synergies of the business combination.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and related goodwill is recognised in the consolidated statement of income.

Intangible assets

Intangible assets include the value of computer software and trade names acquired in a business combination. The cost of intangible assets is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 10 years
- Trade names 25 years

Impairment of non financial assets

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Share-based payments to employees

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Share-based payments to employees (continued)

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate valuation model.

The costs of equity settled share-based payment transactions are recognised in the consolidated statement of income, over the vesting period with the corresponding increases in equity, based on the best available estimate of the number of equity instruments expected to vest.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated balance sheet, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographic segments.

Standards issued but not effective

The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") but are not yet mandatory for these consolidated financial statements:

- IAS 1 - Presentation of Financial Statements (Revised) [effective for annual periods commencing 1 January 2009].
- IFRS 8 Operating Segments [effective for annual periods commencing 1 January 2009].
- IAS 23R Amendment - Borrowing Costs [effective for annual periods commencing 1 January 2009].
- IFRS 2R Amendment - Vesting Conditions and Cancellations [effective for annual periods commencing 1 January 2009].
- IFRS 3R Amendment - Business Combinations and Consequential Amendments [effective for annual periods commencing 1 July 2009].
- IAS 27R Amendment - Consolidated and Separate Financial Statements and Consequential Amendments [effective for annual periods commencing 1 January 2009].
- IAS 32R and IAS 1R Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation [effective for annual periods commencing 1 January 2009].

The application of these standards is not expected to have a material impact on the consolidated financial statements of the Group when they are implemented. However, implementation will result in amendments to the presentation of the consolidated financial statements.

(Amounts in United States Dollars thousands)

3. CASH AND BALANCES WITH BANKS

	2008	2007 (Restated)
Cash on hand	29	10
Balances with banks	23,531	12,627
	23,560	12,637

4. DUE FROM FINANCIAL INSTITUTIONS

	2008	2007 (Restated)
Murabaha receivables	396,774	72,554
Less: deferred profits	(160)	(74)
	396,614	72,480

Due from financial institutions represents murabaha receivables financed solely by the Group's own funds. The profit on these balances as of 31 December 2008 was equivalent to an average rate of 3.4% per annum (2007: 5.1% per annum).

5. INVESTMENT SECURITIES

	2008	2007
Carried at fair value through statement of income (note 5.1)	271,171	149,094
Available for sale investments at fair value:		
Quoted (note 5.2)	33,455	56,649
Unquoted (note 5.3)	4,702	5,650
Investment-related receivables (note 5.4)	19,232	-
	328,560	211,393

5.1 Investments carried at fair value through statement of income comprise:

	31 December 2008					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	2,314	-	2,314
Financial services	127,015	-	-	-	276	127,291
Industrial	-	17,752	-	-	-	17,752
Media	-	14,037	-	-	-	14,037
Real estate and construction	-	38,526	-	-	6,181	44,707
Technology	-	-	39,800	-	-	39,800
Managed funds	25,270	-	-	-	-	25,270
Total	152,285	70,315	39,800	2,314	6,457	271,171

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.1 Investments carried at fair value through statement of income comprise: (continued)

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Agri-business	-	-	-	-	-	-
Financial services	-	-	-	-	26	26
Industrial	-	10,497	-	-	-	10,497
Media	-	14,906	-	-	-	14,906
Real estate and construction	-	38,526	-	-		38,526
Technology	-	-	53,800	-	-	53,800
Managed funds	31,339	-	-	-	-	31,339
Total	31,339	63,929	53,800	-	26	149,094

5.2 Quoted available for sale investments comprise:

	31 December 2008					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**16,573**	**-**	**-**	**-**	**16,573**
Real estate and construction	**-**	**16,882**	**-**	**-**	**-**	**16,882**
Total	**-**	**33,455**	**-**	**-**	**-**	**33,455**

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	14,500	-	-	-	14,500
Real estate and construction	-	42,149	-	-	-	42,149
Total	-	56,649	-	-	-	56,649

5.3 Unquoted available for sale investments comprise:

	31 December 2008					
	Bahrain	**Other Middle East**	**North America**	**Asia Pacific**	**Europe**	**Total**
Financial services	**-**	**-**	**-**	**56**	**-**	**56**
Oil and energy	**-**	**1,047**	**-**	**-**	**3,599**	**4,646**
Total	**-**	**1,047**	**-**	**56**	**3,599**	**4,702**

	31 December 2007					
	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Financial services	-	-	-	95	-	95
Oil and energy	-	3,647	-	-	1,908	5,555
Total	-	3,647	-	95	1,908	5,650

(Amounts in United States Dollars thousands)

5. INVESTMENT SECURITIES (continued)

5.4 Investment-related receivables:

The Group has received a US$19.2 million (2007: nil) irrevocable binding commitment from a related party to compensate the Bank in full on any price difference arising on the sale of one of its investments below the cost price to the Bank.

For the year ended 31 December 2008, the Bank recognised a fair value gain of US$19.2 million (2007: nil) on the guarantee. This was off-set by a corresponding fair value loss on the available for sale investment amounting to US$19.2 million (2007: nil).

6. INVESTMENTS IN ASSOCIATES

	2008	2007
Dawood Islamic Bank Limited	**11,689**	13,284
T'azur B.S.C. (c)	**12,738**	15,000
	24,427	28,284

The Bank has a 22.22% (2007: 22.22%) interest in Dawood Islamic Bank Limited (DIB), an unlisted Islamic commercial bank in Pakistan. Subsequent to the year-end 2008, Unicorn has invested a further US$12.5 million in DIB and increased its stake to 37.78%.

The Bank has a 25.86% (2007: 25.86%) interest in T'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. T'azur was granted a takaful licence by the Central Bank of Bahrain on 8 November 2007.

The summarised financial information in respect of the Bank's associates is set out below:

	2008	2007
Share of the associates balance sheet:		
Assets	**40,457**	39,828
Liabilities	**(16,030)**	(11,544)
Net assets	**24,427**	28,284
Carrying amount of the investment	**24,427**	28,284
Share of the associates revenue and profit:		
Revenue	**2,075**	723
(Loss)/profit for the year	**(2,010)**	181

7. INVESTMENTS PROPERTIES

Investment properties comprise a plot of vacant land in the Seef District of the Kingdom of Bahrain. The fair value of this investment property at 31 December 2008 has been determined by accredited independent valuers using comparable recent market transactions on arm's length terms as the main basis for the valuation.

During the year, the land has been transferred from premises and equipment to investment properties, due to a change in its intended use.

(Amounts in United States Dollars thousands)

8. BUSINESS COMBINATION

In December 2007, the Group formed a corporation called UII-VAC Inc. (the Company) with an 80% equity interest. On 14 December 2007, the Company acquired all the operating assets and liabilities of Victron Inc., a company based in California, USA, that provides electronic manufacturing and supply chain management services. Subsequent to the acquisition, UII-VAC Inc. and Victron Inc. have been renamed as Victron Inc. and OVLC Inc. respectively.

The investment was originally classified under IFRS 5 as Non-current Assets Held for Sale and Discontinued Operations because the original intent was to sell a majority stake in the investment. Subsequent to 31 December 2007, the management has decided to retain a majority stake and the Company has consequently been consolidated retrospectively and the comparative numbers restated.

The restatement has resulted in an increase of US$41.8 million in total assets and US$34.9 million in total liabilities as at 31 December 2007. The restatement did not have any impact on the net profit for the year ended 31 December 2007 because the acquisition occurred close to 31 December 2007.

The restatement has also resulted in an increase of 276 in the number of Group employees as of 31 December 2007.

On 14 December 2007, being the date of acquisition, the fair value of the identifiable assets and liabilities of Victron Inc., were:

	Carrying value	Fair value recognised on acquisition
Cash and balances with banks	500	500
Due from non-banks	10,019	10,019
Other assets	11,699	11,699
Premises and equipment	1,366	1,366
Other liabilities	(6,981)	(6,981)
Intangible assets	-	8,530
Net identifiable assets acquired	16,603	25,133
Goodwill arising on acquisition of Victron Inc.		42,952
Cost of acquisition of Victron Inc.		68,085

UII-VAC Inc. paid the cost of acquisition to Victron Inc. as follows:

Cash paid	63,491
Shares issued of UII-VAC Inc. (137,779 shares at US$33.3418 per share)	4,594
	68,085

Cash outflow on acquisition:	
Cash paid	63,491
Net cash acquired with the subsidiary	(500)
Net cash outflow	**62,991**

(Amounts in United States Dollars thousands)

9. OTHER ASSETS

	2008	2007 (Restated)
Fees and recoverable expenses outstanding from clients	**16,625**	14,859
Advance payments related to deals	**9,680**	-
Prepaid capital raising costs	**6,989**	-
Prepayments and advances	**4,692**	3,471
Other	**5,852**	1,527
	43,838	19,857

10. ASSETS HELD FOR SALE

In October 2008, the Bank acquired a 75% stake in a leading independent oil services company (the 'Company') based in the Williston Basin in the United States of America. As at 31 December 2008, the Company's total assets and liabilities amounted to US$39.2 million and US$13.6 million respectively, and the minority interest resulting from the acquisition of the Company amounted to US$6.3 million.

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets	Total
Cost:			
At 1 January 2008	**45,110**	**8,530**	**53,640**
Exchange adjustment	**(524)**	**-**	**(524)**
At 31 December 2008	**44,586**	**8,530**	**53,116**
Amortisation and impairment:			
Amortisation charge for the year	**-**	**(663)**	**(663)**
At 31 December 2008	**-**	**(663)**	**(663)**
Net book value:			
At 1 January 2008	**45,110**	**8,530**	**53,640**
At 31 December 2008	**44,586**	**7,867**	**52,453**
Cost:			
Additions 2007	45,110	8,530	53,640
At 31 December 2007	45,110	8,530	53,640

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the following subsidiaries that are considered as single cash-generating units.

The carrying amount of goodwill is as follows:

	2008	2007
Victron Inc.	**42,952**	42,952
Unicorn Capital Menkul Degerler A.S.	**1,634**	2,158
	44,586	45,110

(Amounts in United States Dollars thousands)

11. GOODWILL AND INTANGIBLE ASSETS (continued)

Victron Inc.

The recoverable amount of goodwill for Victron Inc. has been calculated based on its value in use.

Value in use was determined by discounting the future cash flow projections, based on the financial budgets approved by senior management covering a five year period. These projections were based on the following key assumptions:

- Profit margins, based on values achieved in the four years preceding the start of the budget period.
- Discount rate, namely the rate of return expected by an investor for the perceived risk of the investment. The discount rate applied to the Victron cash flow projections was 20.5%, and it was calculated using the Weighted Average Cost of Capital (WACC) and the implied internal rate of return.
- Market share during the budget period. Management expects the Victron market share to remain stable over the budget period due to Victron's success in maintaining and growing its customer base.
- Long-term expected growth rate of 4.0% for the terminal value calculation.
- Sensitivity to changes in the assumptions. Management believes that reasonable possible changes in the key assumptions that were used to determine the recoverable amount will not result in an impairment of goodwill.

Unicorn Capital Menkul Degerler A.S.

The recoverable amount of goodwill for Unicorn Capital Menkul Degerler A.S. has been calculated based on its fair value less cost to sell. Fair value for Unicorn Capital Menkul Degerler A.S. was determined from known prices that investors have paid for other similar companies active in the same sector.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount of either subsidiary to decline below the carrying amount.

12. DUE TO FINANCIAL INSTITUTIONS

	2008	2007
Murabaha payable	**183,561**	45,649
Wakala payable	**216,012**	24,722
	399,573	70,371

Included in murabaha payable is a 3-year syndicated financing facility of US$125 million repayable in February 2011. The profit is payable biannually at a rate of 6 months LIBOR + 170 basis points. The facility is not secured against the assets of the Bank, but has certain financial covenants that cover the consolidated tangible net worth and the leverage ratio of the Bank. The Bank's leverage ratio as at 31 December 2008 was 91%, which compares favourably with the maximum leverage ratio of 300% specified in the financial covenants of the facility.

(Amounts in United States Dollars thousands)

13. DUE TO NON-BANKS

Due to non-banks primarily comprises two financing facilities amounting to US$22.9 million (31 December 2007: US$28.5 million) obtained by the Group in relation to the acquisition of Victron Inc. The financing facilities are repayable by 31 March 2014. The average effective profit rate on the financing facilities is 8.615%.

14. OTHER LIABILITIES

	2008	2007 (Restated)
Staff-related payables	**5,287**	19,886
Deal-related payables (14.1)	**62,016**	2,553
Accrued expenses	**3,637**	1,821
Other payables	**17,916**	16,928
	88,856	41,188

14.1 Deal-related payables are related to the purchase of a stake in a portfolio of exchange and remittance companies. Subsequent to the year end 2008, these deal-related payables were fully paid.

15. SHARE CAPITAL

	2008	2007
Authorised:		
750,000,000 ordinary shares of US$1 each	**750,000**	750,000
Issued and fully paid:		
158,304,361 (2007: 158,304,361) ordinary shares of US$1 each, issued against cash	**158,305**	158,305
23,801,343 (2007: 15,066,151) ordinary shares of US$1 each, issued in kind	**23,801**	15,066
1,633,994 (2007: 1,333,333) ordinary shares of US$1 each, granted to Employees	**1,634**	1,333
	183,740	174,704

	No. of shares (thousands)	Nominal value
At 1 January 2007	154,201	154,201
Issued during the year	20,503	20,503
At 1 January 2008	**174,704**	**174,704**
Issued during the year	**9,036**	**9,036**
At 31 December 2008	**183,740**	**183,740**

16. SHARE PREMIUM

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

(Amounts in United States Dollars thousands)

17. STATUTORY RESERVE

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

18. PROPOSED DIVIDEND

No dividend has been proposed for 2008 since the Board and management deem it prudent under the prevailing market conditions to preserve the cash generated by the Bank during 2008 as there is still considerable uncertainty as to how long the current global economic slowdown will last.

A cash dividend of US$0.10 per share (totalling US$17.471 million) and a stock dividend of 5% per share (totalling US$8.735 million) was approved at the 2007 Annual General Meeting and was paid following that approval.

19. ADVANCES FOR PROPOSED INCREASE IN SHARE CAPITAL

During 2008, the Bank increased its equity by US$110.059 million through an international private placement.

20. INVESTMENT BANKING FEES

	2008	2007
Advisory and placement fees	**12,248**	14,272
Structuring fees	**6,159**	28,755
Arrangement and underwriting fees	**1,358**	49,974
Performance fees	**5,013**	774
	24,778	93,775

Included in the investment banking fees is an amount of US$3.4 million (2007: US$18.8 million), that was settled in kind.

21. NET (EXPENSE)/INCOME FROM FINANCIAL INSTITUTIONS

	2008	2007
Income due from financial institutions	**6,178**	4,869
Expense due to financial institutions	**(9,014)**	(1,883)
Net (expense)/income from financial institutions	**(2,836)**	2,986

22. REVENUE AND EXPENSES FROM NON-BANKING ACTIVITIES

	2008	2007
Sales from Victron Inc.	**99,104**	-
Less cost of sales from Victron Inc.	**(80,907)**	-
Gross profit from Victron Inc.	**18,197**	-
Other expenses from Victron Inc.	**(12,388)**	-
Other income	**700**	5,067
Net revenue from non-banking activities	**6,509**	5,067

(Amounts in United States Dollars thousands)

23. STAFF COSTS

Staff costs includes an expense amounting to US$1.643 million (2007: nil) arising from equity-settled share-based payment transactions made with employees of the Group. The shares vest over an effective four year period, with 20% of the shares vesting on the date of the grant and 20% vesting on the first four anniversaries thereafter. The expense reflects the number of shares vesting in the reporting period multiplied by the fair value of the shares at the date of grant.

24. OTHER OPERATING EXPENSES

	2008	2007
General and administrative	**6,561**	5,584
Legal and professional	**5,312**	4,355
Business development	**4,496**	2,290
Bad debts	**-**	1,823
Premises	**2,452**	1,410
Advertising	**1,042**	1,077
Depreciation	**925**	819
Deal-related	**-**	461
Other	**1,823**	952
	22,611	18,771

25. FAIR VALUE GAIN AND FAIR WRITE DOWNS ON INVESTMENT SECURITIES

	2008	2007
Fair value gain on investment securities	**44,381**	-
Fair value write downs on investment securities	**(31,822)**	(844)
Net fair value gain/(loss) on investment securities	**12,559**	(844)
Impairments	**(6,950)**	-

In light of the adverse effects of the global financial crisis, the Bank adopted a conservative approach to the valuation of its assets and recorded investment write-downs of US$31.8 million against its private equity portfolio and impairment charges of US$7.0 million against Sukuk and equity securities.

26. EARNINGS PER SHARE

The calculation of earnings per share (both basic and diluted) is based on the net profit attributable to the Banks' shareholders and the weighted average number of shares outstanding during the year.

	2008	2007 (Restated)
Net profit attributable to the shareholders of the parent	**34,272**	50,099
Total weighted average number of shares (thousands) (26.1)	**183,677**	177,277
Basic earnings per share (US cents)	**18.7**	28.3
Diluted earnings per share (US cents)	**18.6**	28.2

26.1 The Annual General Assembly meeting on 16 March 2008 approved the issue of 8,735,195 ordinary shares as bonus shares to the shareholders registered in the Bank's records as at 31 December 2007. For the purposes of the earnings per share calculations, the 2007 weighted average number of shares has been retrospectively adjusted for this bonus issue.

(Amounts in United States Dollars thousands)

27. INVESTMENT SECURITIES RECORDED AT FAIR VALUE

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs.

	Quoted market price 2008	Valuation techniques market observable inputs 2008	Valuation techniques non-market observable inputs 2008	Total 2008
Investment securities				
Investment securities carried at fair value through statement of income	**-**	**271,171**	**-**	**271,171**
Investment securities designated as available for sale	**33,455**	**4,702**	**-**	**38,157**
	33,455	**275,873**	**-**	**309,328**

	Quoted market price 2007	Valuation techniques market observable inputs 2007	Valuation techniques non-market observable inputs 2007	Total 2007
Investment securities				
Investment securities carried at fair value through statement of income	-	149,094	-	149,094
Investment securities designated as available for sale	56,649	5,650	-	62,299
	56,649	154,744	-	211,393

28. ASSETS UNDER MANAGEMENT

	2008	2007
Proprietary	**88,427**	90,300
Clients	**275,959**	272,900
	364,386	363,200

Proprietary assets are included in the consolidated balance sheet under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated balance sheet.

29. COMMITMENTS

	2008	2007 (Restated)
Investment-related	**35,980**	25,502
Lease commitments	**6,515**	-
	42,495	25,502
Guarantees	**4,167**	-
	46,662	25,502

(Amounts in United States Dollars thousands)

30. RELATED PARTY TRANSACTIONS

Compensation of senior management personnel

Senior management personnel are those that possess significant decision making and direction setting responsibilities within the Group.

	2008	2007
Short term employee benefits	**10,430**	19,086
Post employment benefits	**1,327**	971
Share-based payments	**721**	1,830
	12,478	21,887

Transactions, arrangements and agreements involving related parties

Related parties comprise major shareholders, directors and senior management personnel of the Group, members of the Shari'ah Supervisory Board of the Group, close members of their families and entities owned or controlled by them. Pricing policies and terms of the transactions relating to these related parties are approved by management.

Related parties also comprise the Group's investment companies and funds that hold clients' investments. The Group manages its investment companies and funds on a fiduciary basis on behalf of its clients, who are third parties and are the beneficiaries of a majority of the economic interest of the underlying investments in the investment companies and funds.

	2008			2007 (Restated)		
	Shareholders/ Directors	Senior management	Other entities	Shareholders/ Directors	Senior management	Other entities
Assets						
Due from non-banks	-	-	-	-	-	32,017
Investment securities	-	-	252,132	-	-	136,301
Investments in associates	-	-	24,427	-	-	28,284
Other assets	-	95	16,155	-	71	13,569
Liabilities						
Due to financial institutions	-	-	109,858	-	-	9,262
Due to non-banks	-	-	5,329	-	-	5,028
Other liabilities	2,877	-	66,535	-	-	5,826
Shareholders' equity						
Equity transaction costs	-	-	-	360	1,080	-

Transactions with related parties included in the consolidated statement of income are as follows:

	2008	2007
Investment banking fees	**24,098**	88,988
Expense due to financial institutions	**595**	62
Revenue from non-banking activities	**24**	4,134
Gain on sale of investment securities	**47,615**	5,845
Gain on sale of assets held for sale	**-**	513
Dividend income	**1,117**	2,387
Management fees	**3,186**	2,751
Share of (loss)/profit of associates	**(2,010)**	181
Other income	**379**	248
Directors' remuneration and expenses	**(541)**	(541)
Shari'ah supervisory board remuneration and expenses	**(398)**	(285)

Outstanding balances at the year end arise in the normal course of business.

31. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to investment and credit risk, market risk, liquidity risk and operational risks, as well as concentration risk, reputation risk and other external business risks. The Group's ability to properly identify, measure, monitor and report risk is a core element of the Group's operating philosophy and profitability.

- Risk identification: The Group's exposure to risk through its business activities, including investment in private equity, asset management, strategic mergers and acquisitions, corporate finance and capital markets, is identified through the Group's risk management infrastructure. This process continues to be strengthened through expansion of the Group's risk management resources.

- Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks.

- Risk monitoring: The Group's risk management policies and procedures incorporate risk appetite statements, converted to a range of limits appropriate to the Group's business model. Key areas of the Group's activities are subject to monitoring limits which are regularly reviewed.

- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. The information is reported to the Asset and Liability Committee (ALCO) and the Risk Committee of the Group on a regular basis.

Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

Risk Committee

The Risk Committee has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, within the framework of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework' (Basel II) recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Asset and Liability Committee (ALCO)

The Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the balance sheet mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

31. RISK MANAGEMENT (continued)

Risk Management

Risk Management is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. It is managed independently from the business lines and conducts risk assessments of strategic developments and business area plans, products and services. It is responsible for the implementation of the Group's Business Change Implementation Guidelines, which defines the principles by which new strategies, products, systems and processes are developed in a systematic and co-ordinated fashion and for implementing control and compliance processes for use by the wider businesses involved in control and operational activities (principally Finance, Compliance, Information Technology and Operations).

Risk Management is also responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk.

Treasury

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO. Treasury combines the role of hedging and market risk management with the development of Shari'ah-compliant treasury products and services for customers.

The treasury activity is currently restricted to short term placement of surplus funds and no trading activity takes place. It is therefore not necessary to apply sophisticated risk management techniques. Internal Control and Risk Management conduct position monitoring for profit rate and foreign exchange exposure purposes, subject to regular review by ALCO.

Capital Markets and Institutional Banking

Capital Markets and Institutional Banking is responsible for the development of the Group's medium and long term funding capability and the establishment of all key inter-bank and financial institution relationships. Institutional Banking undertakes diversification strategies to widen the Group's funding base and reduce geographical exposure and concentration risks.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the strategies of the Group, the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Group's Risk Committee, which Internal Audit attends as an independent observer.

Investment Risk

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective investment departments. The Group's investments in private equity are by definition in illiquid markets, frequently in emerging markets. Such investments cannot generally be hedged or liquidated easily. Consequently, the Group seeks to mitigate its risks via more direct means. Post acquisition risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the private equity transaction. Periodic reviews of investments are undertaken and presented to the Investment and Post Investment Management Committee for review. Concerns over risks and performance are addressed via the investment area responsible for managing the investment under the oversight of the Investment and Post Investment Management Committee. Non proprietary investment risks are identified and assessed via the Group's due diligence teams.

31. RISK MANAGEMENT (continued)

Risk identification and monitoring

The Group has adopted basic risk identification measures, reflecting the characteristics of the Group's business model, as follows:

Business	Risk profile	Risk strategies
Private equity	Investment risk	The Group conducts extensive due diligence activities and risk management is exercised directly through Board representation
Capital markets	Mainly non proprietary risk; finance structured for customers	The Group conducts extensive due diligence activities and risk management for proprietary investments
Treasury	Inter-bank placements and deposits	The Group conducts counterparty risk reviews via Institutional Banking; limits are agreed by ALCO
Asset management	Mainly non proprietary risk; funds managed on behalf of customers. Proprietary real estate transactions are also undertaken	The Group conducts extensive due diligence activities and risk management for proprietary investments
Corporate finance	Non proprietary risk; business is advisory in nature	The Group conducts extensive due diligence activities
Strategic mergers & acquisitions	Proprietary investment risk and fiduciary risk (via funds under management)	The Group conducts extensive due diligence activities

Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. Identified concentrations of investment and funding risks are controlled and managed accordingly.

32. CREDIT RISK

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Institutional Banking has established a credit analysis unit which conducts credit assessments for its interbank placement activity and proposes limits for review and approval by ALCO. ALCO periodically reviews these limits for appropriateness in prevailing market conditions.

(Amounts in United States Dollars thousands)

32. CREDIT RISK (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet. There is no significant use of master netting and collateral agreements.

	Gross maximum exposure 2008	Gross maximum exposure 2007 (Restated)
Balances with banks	**23,531**	12,627
Due from financial institutions	**396,614**	72,480
Due from non-banks	**14,120**	40,833
Investment securities	**29,382**	14,500
Other assets – fees and recoverable expenses outstanding from clients	**16,625**	14,859
Total	**480,272**	155,299
Guarantees	**4,167**	-
Total credit risk exposure	**484,439**	155,299

Risk concentration of the maximum exposure to credit risk

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2008 was US$44.1 million (2007: US$37.6 million)

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

	Banks & financial institutions 2008	Others 2008	Total 2008
Bahrain	**211,309**	**3,304**	**214,613**
Other Middle East	**139,195**	**42,218**	**181,413**
North America	**8,263**	**17,120**	**25,383**
Asia Pacific	**4,244**	**-**	**4,244**
Europe	**57,132**	**1,654**	**58,786**
Total	**420,143**	**64,296**	**484,439**

	Banks & financial institutions 2007	Others 2007	Total 2007
Bahrain	66,069	-	66,069
Other Middle East	18,149	44,993	63,142
North America (2007 restated)	7,904	8,793	16,697
Asia Pacific	4,420	-	4,420
Europe	4,911	60	4,971
Total	101,453	53,846	155,299

(Amounts in United States Dollars thousands)

32. CREDIT RISK (continued)

The distribution of assets and off-balance-sheet items by industry sector is as follows:

Industry Sector	Assets	Off-balance-sheet	Total 2008	Total 2007
Financial services	434,357	1,167	435,524	100,050
Industrial	141	-	141	21
Real estate and construction	30,529	-	30,529	12,889
Technology	14,120	3,000	17,120	40,833
In-house funds	1,125	-	1,125	1,506
Total	480,272	4,167	484,439	155,299

Collateral and other credit enhancements

The Group has no material usage of collateral or other credit enhancements since these are not acceptable within the Group's Islamic banking business model.

Credit quality per class of financial assets

The Group does not currently apply a standard credit rating to its investment business. The Group assesses investment quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of materially standard quality as at 31 December 2008.

33. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity management

Liquidity is defined as the Group's ability to make payments, when they fall due. When the Group cannot raise funds to meet its obligations at market rates, it faces a liquidity crisis. This may reflect: poor performance; severe tightening of market liquidity; general deterioration in the perceived credit-worthiness of the Group in the view of the financial markets; a failure to manage the cashflows of the Group's assets and liabilities to meet short term funding requirements; or a serious lack of profitability.

Liquidity methodology

The key features of the Group's liquidity methodology are:

- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

- ALCO has determined the most appropriate liquidity horizon for the Group as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed balance sheet requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon.

- ALCO has determined that it is prudent to hold liquid assets representing at least 120% of liquidity requirements for normal business purposes and 150% for a crisis scenario. This means that the Group holds a significant buffer to protect against further unforeseen liquidity requirements.

33. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

- ALCO manages the Group's liquidity position according to the following risk dashboard methodology to highlight management concerns:

Risk dashboard	Normal business scenario	Crisis scenario	Actions due
Green	Higher than 120%	Higher than 150%	Position acceptable
Amber	Greater than 110%, less than 120%	Greater than 110% less than 150%	Breach of soft limit; ALCO monitors position closely and recommends reprioritisation of investment decisions
Red	Less than 110%	Less than 110%	Breach of Board limit; ALCO considers whether to invoke liquidity contingency plan

Liquidity strategy

The Group further strengthened its liquidity management activities during 2008 in order to ensure that the Group maintains a stable funding base and strong liquidity during the prevailing period of globalmarket crisis. Cash flow planning was enhanced and discretionary expenditures were deferred. The Group also significantly strengthened its fund raising activities with the specific objective of lengthening the maturity profile of the Group's borrowing.

Liquidity strategy	Note
Medium term funding	The Group obtained 3-year medium term financing totalling US$125 million early in 2008. This provided major relief against short term funding pressures.
Equity capital	The Group raised new equity capital during 2008 through an international private placement. Approximately US$110 million of the new capital raise proceeds had been received as at 31 December 2008.
Short term funding and interbank activities	The Group has actively expanded its short term funding capacity from the interbank markets to diversify its funding sources by counterparty and maturity. The Group continues to lengthen its liability maturity profile and has commenced treasury activity in Malaysia to further diversify the Group's funding operations.
Standby credit facilities	The Group has established equivalent standby facilities of approximately US$30 million during 2008.

Liquidity contingency plan

In the event of a liquidity crisis, the Group's liquidity framework defines a methodology and operational plan for ensuring adequate funds continue to be available. In summary, the liquidity contingency plan establishes roles and responsibilities for crisis identification and co-ordination; assessment of the severity and implications of the crisis; determination of the cash flow requirements; determination of investment liquidation requirements under fire sale conditions and necessary emergency finance; and management of corporate communications with external parties, regulators and the media.

During late 2008, the Group effectively invoked the liquidity contingency plan to protect the Bank against the potential risks of the distressed global economy and the tight global financial market conditions. The Group has successfully strengthened its liquidity resources and continues to strengthen its scale of treasury and liquidity management.

(Amounts in United States Dollars thousands)

33. LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 based on contractual undiscounted repayment obligations.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2008					
Due to financial institutions	**9,945**	**264,628**	**-**	**125,000**	**399,573**
Due to non-banks	**-**	**-**	**-**	**22,874**	**22,874**
Other liabilities	**-**	**64,250**	**20,659**	**3,947**	**88,856**
Total financial liabilities	**9,945**	**328,878**	**20,659**	**151,821**	**511,303**
Total undiscounted financial liabilities	**9,945**	**330,835**	**25,246**	**162,661**	**528,687**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2007 (Restated)					
Due to financial institutions	34,747	-	35,624	-	70,371
Due to non banks	-	-	-	28,537	28,537
Other liabilities	1,015	35,864	2,279	2,030	41,188
Total financial liabilities	35,762	35,864	37,903	30,567	140,096
Total undiscounted financial liabilities	35,815	35,864	38,660	30,567	140,906

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2008						
Commitments	**12,970**	**23,372**	**1,086**	**5,067**	**-**	**42,495**
Guarantees	**4,167**	**-**	**-**	**-**	**-**	**4,167**
Total	**17,137**	**23,372**	**1,086**	**5,067**	**-**	**46,662**
2007						
Commitments	25,502	-	-	-	-	25,502
Total	25,502	-	-	-	-	25,502

34. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis. The Group has significant market risk exposures from its foreign currency investments.

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: due from financial institutions, Sukuk, due to financial institutions and due to non-banks.

(Amounts in United States Dollars thousands)

34. MARKET RISK (continued)

Market Risk: Non-trading (continued)

Profit rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2008	Change in profit rate (+/-) 2008	Effect on net profit (+/-) 2008	2007	Change in profit rate (+/-) 2007	Effect on net profit (+/-) 2007
Assets						
Due from financial institutions	**396,614**	**200**	**7,932**	72,480	200	1,450
Investment in Sukuk	**10,150**	**200**	**203**	14,500	200	290
Liabilities						
Due to financial institutions	**399,573**	**200**	**(7,991)**	70,371	200	(1,407)
Due to non-banks	**22,874**	**200**	**(457)**	28,537	200	(571)
Total			**(313)**			(238)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and the consolidated statement of changes in equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	Exposure (US$ equivalent) 2008	Effect on net profit (+/-) 2008	Effect on equity (+/-) 2008	Exposure (US$ equivalent) 2007	Effect on Net profit (+/-) 2007	Effect on equity (+/-) 2007
Kuwaiti Dinar	**22,695**	**4,330**	**209**	59,581	11,188	728
Jordanian Dinar	**38,526**	**7,705**	**-**	38,526	7,705	-
Pakistan Rupee	**14,003**	**463**	**2,338**	13,284	-	2,657
Turkish Lira	**10,674**	**-**	**2,135**	4,650	-	232
Malaysian Ringgit	**(3,602)**	**-**	**720**	3,113	-	623
Euro	**5,826**	**-**	**1,165**	1,908	-	382

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration and by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Group.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2008) due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$39.626 million and US$4.201 million, respectively (2007: US$22.364 million and US$7.170 million, respectively). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

(Amounts in United States Dollars thousands)

34. MARKET RISK (continued)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected.

The Group is not exposed to any significant prepayment risk.

35. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

The Bankhas met the 2008 regulatory requirements for Basel II implementation, and as part of Basel II implementation, the Bank has put an operational risk framework in place. Under this framework the following have been carried out:

- In 2008, the Bank significantly strengthened its takaful coverage, which has significantly mitigated the Group's operational risk profile by establishing comprehensive directors and officers, fund liability, fraud and professional indemnity insurance with the London underwriting market.

- In 2008, the Bank initiated a programme to implement a comprehensive Basel II, Pillar 2 framework. The Bank is in the process of conducting a risk assessment in accordance with the requirements of the Central Bank of Bahrain. This is due to be completed in April 2009.

The Board of Directors has approved the Group's operational risk framework and has delegated the day-to-day supervision of operational risk to the risk management officer. In order to manage operational risk effectively, the Group has designed a structure to facilitate the flow of information between risk management, the various lines of business, senior management and the Board of Directors. This open and collaborative organisational structure provides an effective and regular reporting oversight on operational risk to the management and the Board, thereby allowing for immediate action in instances where the level of operational risk is high.

Capital charge for operational risk	2008	2007
Gross Income	**134,572**	109,699
Average for preceding three years	**91,428**	53,114
Alpha	**15%**	15%
Capital charge for operational risk	**13,714**	7,967

(Amounts in United States Dollars thousands)

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2008	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Undated	Total
ASSETS							
Cash and balances with banks	23,560	-	-	-	-	-	23,560
Due from financial institutions	353,478	43,136	-	-	-	-	396,614
Due from non-banks	-	14,120	-	-	-	-	14,120
Investment securities	-	-	-	76,137	252,423	-	328,560
Investments in associates	-	-	-	-	24,427	-	24,427
Investment properties	-	-	-	-	38,538	-	38,538
Inventories	-	-	-	10,695	-	-	10,695
Other assets	6,398	17,331	19,100	-	-	1,009	43,838
Premises and equipment	-	-	-	-	-	6,778	6,778
Assets held for sale	-	-	-	39,187	-	-	39,187
Goodwill and intangible assets	-	-	-	-	-	52,453	52,453
Total assets	383,436	74,587	19,100	126,019	315,388	60,240	978,770
LIABILITIES							
Due to financial institutions	258,875	5,010	9,851	-	125,837	-	399,573
Due to non-banks	-	-	-	-	22,874	-	22,874
Other liabilities	61,506	22,762	1,141	-	-	3,447	88,856
Liabilities held for sale	-	-	-	13,556	-	-	13,556
Total liabilities	320,381	27,772	10,992	13,556	148,711	3,447	524,859
Net liquidity gap	63,055	46,815	8,108	112,463	166,677	56,793	453,911
Net cumulative gap	-	109,870	117,978	230,441	397,118		

31 December 2007 (Restated)	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Undated	Total
ASSETS							
Cash and balances with banks	12,637	-	-	-	-	-	12,637
Due from financial institutions	63,682	8,798	-	-	-	-	72,480
Due from non-banks	32,017	8,816	-	-	-	-	40,833
Investment securities	-	-	-	56,745	154,648	-	211,393
Investments in associates	-	-	-	-	28,284	-	28,284
Inventories	-	-	-	10,667	-	-	10,667
Other assets	-	14,882	2,914	2,061	-	-	19,857
Premises and equipment	-	-	-	-	-	38,628	38,628
Goodwill and intangible assets	-	-	-	-	-	53,640	53,640
Total assets	108,336	32,496	2,914	69,473	182,932	92,268	488,419
LIABILITIES							
Due to financial institutions	34,747	-	30,474	5,150	-	-	70,371
Due to non-banks	-	-	-	-	28,537	-	28,537
Other liabilities	2,987	17,851	10,413	6,934	973	2,030	41,188
Total liabilities	37,734	17,851	40,887	12,084	29,510	2,030	140,096
Net liquidity gap	70,602	14,645	(37,973)	57,389	153,422	90,238	348,323
Net cumulative gap	-	85,247	47,274	104,663	258,085		

37. SEGMENT INFORMATION

For management purposes, the Group is organised into eight business segments:

Capital markets: The Group's capital markets business is engaged in structuring, managing and placing financing and equity offerings and securitisation transactions for corporate clients. It also targets sovereign clients. The Shari'ah compliant products include Sukuk, asset backed securitisations and syndicated facilities. Capital markets also provides credit rating advisory services and maintains a proprietary investment book.

Private equity: The Group's private equity business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. The business acquires portfolio companies through direct investments and also manages the Bank's Global Private Equity Fund.

Corporate finance: The Group's corporate finance business provides clients with corporate finance advisory services for capital planning and funding strategy, financial restructuring and mergers and acquisitions. The services include balance sheet structuring, valuation, financing alternatives and strategic business advisory services.

Asset management: The Group's asset management business is engaged in real estate funds, real estate private equity opportunities and equity funds.

Strategic mergers and acquisitions ("SM&A"): The Group's SM&A business is primarily responsible for acquiring investment banking businesses, opening new offices and securing the appropriate banking licenses in order to expand the Group's global footprint. SM&A also sources and manages investment on behalf of the Bank's Strategic Acquisition Fund.

Treasury: The Group's treasury business provides Shari'ah compliant funding, liquidity and hedging products and services. Treasury is currently focused on meeting the Group's internal cash management needs.

Other: 'Other' comprises the central management and support functions of the Group.

Victron: Victron Inc. is an electronic manufacturing and supply chain management services company based in California, USA, that was acquired by the Group's private equity business in December 2007.

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Business segment information

	Capital Markets 2008	Private Equity 2008	Corporate Finance 2008	Asset Management 2008	Strategic M&A 2008	Treasury 2008	Other 2008	Victron 2008	Total 2008
Income									
Investment banking fees	9,450	6,858	3,941	590	2,400	-	1,539	-	24,778
Net (expense)/income from financial institutions	(886)	(3,013)	(420)	(693)	(2,441)	5,114	(497)	-	(2,836)
Revenue from non-banking activities	700	-	-	-	-	-	-	99,104	99,804
Gain on sale of investment securities	-	8,574	17,680	5,604	21,839	-	-	-	53,697
Fair value gain on investment securities	-	-	384	989	43,008	-	-	-	44,381
Fair value gain on investment properties	-	-	-	4,167	-	-	-	-	4,167
Dividend income	-	-	1,117	-	-	-	37	-	1,154
Management fees	-	1,296	-	323	1,567	-	-	-	3,186
Share of (loss) of associates	-	-	-	-	(2,010)	-	-	-	(2,010)
Other income	-	3,179	393	580	-	-	167	-	4,319
Total Income	9,264	16,894	23,095	11,560	64,363	5,114	1,246	99,104	230,640
Staff costs	1,311	4,308	1,149	2,289	2,211	106	29,577	-	40,951
Other operating expenses	242	336	112	1,071	1,783	7	19,060	-	22,611
Non-banking activity expenses	-	-	-	-	-	-	-	93,295	93,295
Total expenses (37.1)	1,553	4,644	1,261	3,360	3,994	113	48,637	93,295	156,857
Profit/(loss) before impairments and fair value write downs	7,711	12,250	21,834	8,200	60,369	5,001	(47,391)	5,809	73,783
Impairments	(4,350)	-	-	-	(2,600)	-	-	-	(6,950)
Fair value write downs on investment securities	-	(26,117)	-	-	(5,705)	-	-	-	(31,822)
Net profit/(loss)	3,361	(13,867)	21,834	8,200	52,064	5,001	(47,391)	5,809	35,011
Assets and liabilities									
Segment assets	52,687	142,326	24,178	44,719	142,043	416,947	50,122	81,321	954,343
Investments in associates	-	-	-	-	24,427	-	-	-	24,427
Total assets	52,687	142,326	24,178	44,719	166,470	416,947	50,122	81,321	978,770
Total liabilities	125,000	13,556	-	-	-	274,573	77,229	34,501	524,859
Other segment information for the year									
Capital expenditure - Premises and equipment	-	-	-	-	-	-	3,651	-	3,651
Depreciation and amortisation	-	-	-	-	-	-	925	868	1,793
Goodwill and intangible assets	-	-	-	-	-	-	1,634	50,819	52,453

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Business segment information (continued)

	Capital Markets 2007	Private Equity 2007	Corporate Finance 2007	Asset Management 2007	Strategic M&A 2007	Treasury 2007	Other 2007	Victron 2007	Total 2007
Income									
Investment banking fees	49,583	23,281	13,411	-	7,500	-	-	-	93,775
Net (expense)/income from financial institutions	-	-	-	-	-	2,986	-	-	2,986
Revenue from non-banking activities	934	4,133	-	-	-	-	-	-	5,067
Gain on sale of investment securities	-	1,683	6,006	514	3,648	-	-	-	11,851
Gain on sale of assets held for sale	-	1,335	-	-	-	-	-	-	1,335
Dividend income	-	32	2,365	23	362	-	11	-	2,793
Management fees	-	1,073	-	969	709	-	-	-	2,751
Share of profit of associates	-	-	-	-	-	-	181	-	181
Other income	71	113	(41)	482	459	-	1,062	-	2,146
Total Income	50,588	31,650	21,741	1,988	12,678	2,986	1,254	-	122,885
Staff costs	1,566	1,635	494	1,578	537	-	47,869	-	53,679
Other operating expenses	385	280	284	2,268	443	-	15,111	-	18,771
Non-banking activity expenses	-	-	-	-	-	-	-	-	-
Total expenses (37.1)	1,951	1,915	778	3,846	980	-	62,980	-	72,450
Profit/(loss) before fair value write downs	48,637	29,735	20,963	(1,858)	11,698	2,986	(61,726)	-	50,435
Fair value write downs on investment securities	-	-	-	(844)	-	-	-	-	(844)
Net profit/(loss)	48,637	29,735	20,963	(2,702)	11,698	2,986	(61,726)	-	49,591
Assets and liabilities (2007 restated)									
Segment assets	56,649	163,555	14,906	4,156	11,522	81,771	59,162	68,414	460,135
Investments in associates	-	-	-	-	28,284	-	-	-	28,284
Total assets	56,649	163,555	14,906	4,156	39,806	81,771	59,162	68,414	488,419
Total liabilities	-	-	-	-	-	70,371	34,813	34,912	140,096
Other segment information for the year (2007 restated)									
Capital expenditure - Premises and equipment	-	-	-	-	-	-	35,640	-	35,640
Depreciation	-	-	-	-	-	-	819	-	819
Goodwill and intangible assets	-	-	-	-	-	-	2,159	51,481	53,640

37.1 Expense figures represent the direct operating expenses of each business segment. Unallocated central overheads are included in 'Other'.

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Geographical segment information

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's net profit, total assets and capital expenditure by geographical segments, based on the location in which the transactions and assets are recorded, for the years ended 31 December 2008 and 2007.

	Bahrain 2008	Other Middle East 2008	North America 2008	Asia Pacific 2008	Europe 2008	Total 2008
Income						
Investment banking fees	7,389	14,377	1,234	1,538	240	24,778
Net (expense)/income from financial institutions	(3,900)	89	1	-	974	(2,836)
Revenue from non-banking activities	-	700	99,104	-	-	99,804
Gain on sale of investment securities	8,575	39,518	-	-	5,604	53,697
Fair value gain on investment securities	-	43,392	-	-	989	44,381
Fair value gain on investment properties	4,167	-	-	-	-	4,167
Dividend income	-	1,117	-	7	30	1,154
Management fees	1,296	1,568	-	-	322	3,186
Share of (loss)/profit of associates	(2,262)	-	-	252	-	(2,010)
Other income	1,807	-	1,378	160	974	4,319
Total income	17,072	100,761	101,717	1,957	9,133	230,640
Staff costs	36,089	1,276	2,076	501	1,009	40,951
Other operating expenses	15,396	696	2,659	974	2,886	22,611
Non-banking activity expenses	-	-	93,295	-	-	93,295
Total expenses	51,485	1,972	98,030	1,475	3,895	156,857
(Loss)/profit before impairments and fair value write downs	(34,413)	98,789	3,687	482	5,238	73,783
Impairment charges	-	(6,950)	-	-	-	(6,950)
Fair value write downs on investment securities	(9,022)	(1,800)	(21,000)	-	-	(31,822)
Net (loss)/profit	(43,435)	90,039	(17,313)	482	5,238	35,011
Total assets	407,433	266,373	185,616	49,545	69,803	978,770
Total liabilities	172,239	276,013	12,250	10,191	54,166	524,859
Capital expenditure –						
Premises and equipment	2,903	39	134	587	(12)	3,651
Goodwill and intangible assets	-	-	50,819	-	1,634	52,453

(Amounts in United States Dollars thousands)

37. SEGMENT INFORMATION (continued)

Geographical segment information (continued)

	Bahrain 2007	Other Middle East 2007	North America 2007	Asia Pacific 2007	Europe 2007	Total 2007
Income						
Investment banking fees	1,548	70,473	21,754	-	-	93,775
Net income from financial institutions	2,830	83	73	-	-	2,986
Revenue from non-banking activities	-	5,067	-	-	-	5,067
Gain on sale of investment securities	1,196	10,168	487	-	-	11,851
Gain on sale of assets held for sale	-	-	1,335	-	-	1,335
Dividend income	-	2,750	32	11	-	2,793
Management fees	1,077	1,674	-	-	-	2,751
Share of profit of associates	-	-	-	181	-	181
Other income	805	-	-	69	1,272	2,146
Total income	7,456	90,215	23,681	261	1,272	122,885
Staff costs	47,816	2,557	1,635	248	1,423	53,679
Other operating expenses	14,721	1,026	280	362	2,382	18,771
Total expenses	62,537	3,583	1,915	610	3,805	72,450
(Loss)/profit before fair value write downs	(55,081)	86,632	21,766	(349)	(2,533)	50,435
Fair value write downs on investment securities	(844)	-	-	-	-	(844)
Net (loss)/profit	(55,925)	86,632	21,766	(349)	(2,533)	49,591
Total assets	152,183	174,745	137,468	18,130	5,893	488,419
Total liabilities	51,979	50,505	36,272	5	1,335	140,096
Capital expenditure –						
Premises and equipment	34,800	311	14	-	-	35,125
Goodwill and intangible assets	-	-	51,482	-	2,158	53,640

38. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments as of the consolidated balance sheet date approximates to their carrying values.

39. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

40. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

41. ZAKAH

In accordance with the instructions of the Shari'ah Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

(Amounts in United States Dollars thousands)

42. CAPITAL

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, is as follows:

	2008 (Basel II)	2007 (Basel II)	2007 (Basel I)
Regulatory capital base:			
Tier 1 capital	**197,150**	268,843	276,343
Tier 2 capital	**-**	9,050	16,550
Total regulatory capital	**197,150**	277,893	292,893
Risk-weighted assets	**1,022,093**	620,992	442,988
Tier 1 capital adequacy ratio	**19.29%**	43.29%	62.38%
Total capital adequacy ratio	**19.29%**	44.75%	66.12%

Tier 1 capital comprises: share capital; share premium; statutory reserve; foreign currency translation reserve; retained earnings, including current year profit; minority interests less accrued dividends and goodwill. Certain adjustments are made to IFRS based results and reserves, as prescribed by the Central Bank of Bahrain. Tier 2 capital comprises 45% of fair value reserves.

The above information is based on the Central Bank of Bahrain prudential returns regulations, applicable as at the balance sheet date. The figures do not include the benefit of the capital raise funds received as at 31 December 2008 from the 2008 private placement. These funds increase Tier 1 capital by US$110.059 million and consequently increase the capital adequacy ratio to 31.09% (total) and 31.09% (Tier 1).